

RatingsDirect®

Summary:

Columbia, Missouri; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$11.135 mil spl oblig rfdg bnds ser 2019 due 03/01/2034

<i>Long Term Rating</i>	AA-/Stable	New
Columbia spl oblig imp bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Columbia ICR		
<i>Long Term Rating</i>	AA/Stable	Downgraded
Columbia (swr sys proj)		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Columbia (Solid Waste Syst Proj)		
<i>Long Term Rating</i>	AA-/Stable	Downgraded

Rationale

S&P Global Ratings lowered its issuer credit rating (ICR) on Columbia, Mo. to 'AA' from 'AA+', and its long-term rating on the city's existing appropriation debt to 'AA-' from 'AA.' At the same time, S&P Global Ratings assigned its 'AA-' rating to the city's series 2019 special obligation refunding bonds. The outlook is stable.

The downgrade reflects our view that the city's economic and pension profiles have deteriorated. We believe the local economy has weakened relative to that of peers in the rating category, with slower employment growth and lower income metrics. The city's pension obligations remain large, with two single-employer plans with funded ratios below 60%. Annual pension costs are high and have been growing each year as percentage of budget, from 9.5% of total governmental funds expenditures 10 years ago to 16.7% in 2018. The city plans to continue to pay the actuarially determined contribution (ADC) using general fund revenues, however, we do not consider this to be a robust plan to address the increasing costs as they take up a larger share of the city's budget over the long term.

The series 2019 special obligation bonds will refund the city's series 2009A taxable special obligation improvement bonds for interest savings. The 2009A bonds were issued to finance the construction of the city's Fifth and Walnut parking garage.

The series 2019 special obligation bonds, and the city's existing appropriation debt, are special obligations of the city, secured by annually appropriated legally available funds. We rate these obligations one notch lower than the city's general creditworthiness (as reflected in the ICR) to reflect the appropriation risk associated with the annual payment. We view these bonds as having a strong relationship to the obligor. These obligations provide funding for projects we believe are important to the obligor. The city pledges to annually appropriate from its operating revenues, and has a history of appropriating for similar obligations. In our opinion, there is no unusual political, timing, or administrative

risk related to the debt payment.

Separately, the city's 2012D special obligation bonds are also secured by an electric utility pledge, but we rated these bonds based on the city's annual appropriation pledge, which we view as the stronger security.

The ICR reflects our view of the city's:

- Adequate economy, with a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 38% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.3x total governmental fund expenditures and 53.0x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 106.6% of total governmental fund revenue, as well as a large pension obligation and the lack of a plan to sufficiently address the obligation; and
- Adequate institutional framework score.

The city of Columbia's credit strength lies in its financial performance. It has consistently achieved general fund surpluses in very strong fund balances well above its policy of 20% of expenditures. Columbia's economy is adequate, in our view, and it benefits from the stabilizing institutional presence of the University of Missouri. We believe the city's market value per capita and incomes are likely suppressed somewhat by the university, and as a result are lower than those of peers in the rating category. Its large pension burden is a credit weakness, in our view, because its single-employer police and fire pension plans have low funded ratios and pension contributions comprise a large percentage of the city's budget. Without a plan to address rising pension costs, we believe the pension burden could eventually pressure the city's financial operations over the long term.

Adequate economy

We consider Columbia's economy adequate. The city, with an estimated population of 119,423, is located in Boone County. The city benefits, in our view, from a stabilizing institutional influence. It has a projected per capita effective buying income of 87.1% of the national level and per capita market value of \$72,078. Overall, the city's market value grew 6.6% over the past year to \$8.6 billion in 2018. The county unemployment rate was 2.6% in 2017.

Our view of the local economy has weakened somewhat, as we no longer view the Columbia metropolitan area as broad and diverse as defined by our criteria. This is primarily due to slower employment growth compared with that of previous years.

Columbia is the home to the University of Missouri, the state's flagship university. We believe the school acts as a stabilizing institution for the city. Leading employers in the city include the University of Missouri (8,310 employees and more than 30,000 students), University Hospital and Clinics (4,831), Columbia Public Schools (2,530), and

Veterans United Home Loans (1,817).

The city's market value increased 6.6% in fiscal 2018 from the previous year, which management attributes to an especially strong year for new development. Management reports modest growth in residential development, but stronger commercial/industrial development. Some projects include the construction of Aurora Organic Dairy (\$140 million investment, 150 new jobs) and expansion on Beyond Meat production facility (250 new jobs) both of which are inside the city limits, and construction of American Outdoor Brands Distribution Center (150 new jobs), which is just outside the city. Management expects moderate growth in future valuations. Given ongoing development, we expect the local economy to remain at least adequate, and it may return to strong if employment growth improves.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city is under the direction of an interim city manager and interim finance director. The search for a new city manager is ongoing, after which the city will appoint a new finance director, with input from the new manager. The interim city manager was previously the deputy city manager, and the interim finance director was the previous city controller. Despite the management change, the city expects its financial procedures and policies to remain the same.

In developing its budget, the city uses 10 years of historical data, outside data sources, and mostly line-item estimates. Management creates a five-year financial forecast for all funds that it shares internally, but not formally, and that city officials do not approve. The city has a five-year capital improvement plan that identifies project costs and sources of revenue that the city council reviews during the budget process. The city has both debt and investment management policies. It reports budget-to-actual results and investment holdings to the council at the end of the second and third quarters of each fiscal year. The city has a general fund reserve policy to maintain a minimum of 20% of expenditures, a policy it has historically followed.

Strong budgetary performance

Columbia's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund of 1.2% of expenditures, and surplus results across all governmental funds of 13.8% in fiscal 2018.

In assessing budgetary performance, we made adjustments for recurring transfers, treating such as either revenues or expenditures. Despite breakeven budgets in fiscal years 2017 and 2018, the city closed both years with general fund surpluses, after our adjustments. Management attributes the surpluses to lower expenditures related to open positions as well as lower-than-budgeted supplies and material purchases. Total governmental fund performance has also been positive the past few years. The fiscal 2019 budget also calls for breakeven operations, and year-to-date, city officials report that expenditures are tracking in line with budget, and it is too early to tell on revenue, but so far sales tax revenue appears to be holding steady with that of the previous year.

Major general fund revenue includes sales taxes (28%), recurring transfers from enterprise funds (20%), other local taxes (14%), property taxes (10%), recurring transfers from governmental funds (10%) and intergovernmental revenue (6%). Sales tax revenue are subject to volatility due to economic changes, and the city is budgeting for a 1% decrease

in sales tax revenue in fiscal 2019. Given the city's performance history, breakeven budget, and realistic budgetary assumptions, we expect overall budgetary performance to remain strong over the next two years.

Very strong budgetary flexibility

Columbia's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 38% of operating expenditures, or \$31.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a credit strength. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 39% of expenditures in both fiscal 2017 and 2016.

We expect the city's budgetary flexibility to remain very strong, supported by its historic budgetary performance, a breakeven budget in 2019, and no plans to drawdown general fund reserves.

Very strong liquidity

In our opinion, Columbia's liquidity is very strong, with total government available cash at 2.3x total governmental fund expenditures and 53.0x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

We expect liquidity to remain very strong. The city has strong access to external liquidity, in our opinion, because it has issued debt over the past 20 years and maintains a strong credit profile. Management reports a 2010 private bank loan with an original balance of \$9.2 million, which matures in 2020. The terms of the loan agreement do not include any nonstandard liquidity risks.

Very weak debt and contingent liability profile

In our view, Columbia's debt and contingent liability profile is very weak. Total governmental fund debt service is 4.3% of total governmental fund expenditures, and net direct debt is 106.6% of total governmental fund revenue.

The city does not have plans to issue additional new money GO or appropriation-backed debt at this time. It does expect to issue approximately \$16 million of water and electric revenue bonds and \$10 million of airport revenue bonds in fiscal 2019. We expect debt and contingent liabilities to remain very weak.

In our opinion, a credit weakness is Columbia's large pension obligation, without a plan in place that we think will sufficiently address the rising pension costs. Columbia's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 16.7% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

The city participates in two single-employer pension plans, which it administers, and the state administered, multiple-employer Local Government Employees Retirement System (LAGERS). Total pension contributions to these plans were \$16.6 million in 2018.

In 2018, the city-administered police and fire plans were 56.1% and 55.8% funded, respectively. The total net pension liability for these plans was \$109 million. The LAGERS plan was more than 100% funded and the city's net pension asset was \$17 million. Due to the police and fire plans' relatively poor funding status, the city made a one-time additional payment to the plans--\$2 million to the police plan and \$3 million to the fire plan in 2015. Between 2016-2018, the city made contributions in line with the ADC. The city expects to continue to contribute the ADC each

year. Management reports the city identifies any increases in employer contributions during its budgeting process and plans to address any increased contributions using its general revenue sources. Given rising pensions costs, which have been on average 4% annually over the past 10 years, and the growing percentage of the budget that pension costs comprise, we do not view the city's plan to be robust.

In 2014, the city eliminated retiree health insurance subsidies. As of the Oct. 1, 2016, actuarial valuation, the OPEB plan was 201% funded, with a net OPEB asset of \$1.8 million.

Adequate institutional framework

The institutional framework score for Missouri municipalities is adequate.

Outlook

The stable outlook reflects our view of the city's strong budgetary performance, which allows it to maintain very strong fund balances and liquidity. In addition, the presence of the University of Missouri provides stability to the local economy. Therefore, we do not expect a rating change within the two-year outlook.

Downside scenario

If the city's budgetary performance weakens for a sustained period, resulting in lower fund balances or liquidity, we could lower the rating.

Upside scenario

Should the city provide a credible plan to address rising pension costs, lower its debt and pension burden, and improve its economic characteristics to levels that we consider commensurate with those of higher-rated peers, we could raise the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 8, 2019)

Columbia		
Long Term Rating	AA-/Stable	Downgraded
Columbia		
Long Term Rating	AA-/Stable	Downgraded
Columbia		
Long Term Rating	AA-/Stable	Downgraded

Ratings Detail (As Of March 8, 2019) (cont.)		
Columbia (elec util proj)		
Long Term Rating	AA-/Stable	Downgraded
Columbia (elec util)		
Long Term Rating	AA-/Stable	Downgraded
Columbia (Pkg Proj)		
Long Term Rating	AA-/Stable	Downgraded

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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